

AUDIT COMMITTEE ATTRIBUTES AND FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS: EVIDENCE FROM NIGERIA

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Abstract

This study examined the effect of audit committee characteristics on the financial performance of listed Nigerian deposit money banks, measured by ROA and ROE. The study was motivated by ongoing debates about the role of audit committee size, meeting frequency, independence, and expertise in improving governance and performance in emerging economies with evolving regulations. A quantitative panel design was used, utilising secondary data from the audited annual reports and financial statements of 12 listed deposit money banks from 2015 to 2024. The study employed Fixed Effects, Random Effects and Pooled Ordinary Least Squares (OLS) estimation methods. The findings revealed that the frequency of audit committee meetings was negatively related to both ROA and ROE at the 5% significance level. In addition, auditor size was negatively associated with ROE. Audit committee financial expertise exhibited a highly significant negative relationship with the performance measures at the 1% level. Overall, the study could not reject the null hypothesis; rather, it concluded that the audit committee's attributes negatively affect financial performance. The study finds that while stronger governance mechanisms can enhance oversight and accountability, they may also reduce short-term profits for Nigerian deposit money banks. The results support the Banking Governance Framework and indicate that effective governance relies not only on structural adherence but also on its practical implementation. The study suggests that regulators and bank boards should adopt a balanced, unique approach to audit committee governance, taking into account each bank's operational realities and strategic goals.

Keywords: Audit committee attributes, financial performance, ROA, ROE, deposit money banks

1.0 Introduction

Concerns about governance quality and financial reporting have prompted regulators, investors, and policymakers to intensify scrutiny of the banking sector's financial performance (Levine, 2005; Laeven & Valencia, 2018). These concerns underscore the vital role of deposit money banks in fostering economic growth and credit allocation, and in ensuring the stability of the financial system (Levine, 2005; Tijani et al., 2025; Ozoemene & Nnubia, 2025; Onmonya & Ebire, 2023). Consequently, academic research has increasingly focused on identifying the determinants of banking performance across diverse institutional and regulatory contexts (Olateju & Tijani, 2024; Abu, 2024; Isah et al., 2024). Particular focus has been placed on governance structures because of their impact on monitoring effectiveness, financial reporting quality, and financial performance in banking institutions (DeFond & Zhang, 2014; Bushman & Smith, 2001; García-Sánchez et al., 2023; Kyere & Ausloos, 2021).

Financial performance is the extent to which firms efficiently utilise financial and non-financial resources to generate returns, sustain operational viability, and maintain long-term organisational stability and value creation (Agyei-Mensah, 2022; Gleißner et al., 2022; Nogueira et al., 2024). In banking studies, performance is commonly proxied by accounting-based measures such as Return on Assets (ROA) and Return on Equity (ROE), which are widely used to capture

profitability and managerial efficiency (Athanasoglou et al., 2008; Agyei-Mensah, 2022; Kyere & Ausloos, 2021).

In this context, the audit committee is a key governance mechanism that strengthens accountability by bridging management and external auditors, thereby enhancing the credibility of financial reporting and the quality of oversight (Bédard & Gendron, 2010). Audit committees are integral to internal control systems and are widely recognised as central to governance effectiveness in modern corporations (DeZoort et al., 2002; Klein, 2002). Their effectiveness is typically assessed using structural and functional attributes, including size, independence, meeting frequency, and financial expertise (DeZoort et al., 2002; Abbott et al., 2004; Bédard & Gendron, 2010). Despite ongoing regulatory reforms and the adoption of corporate governance codes in the banking sector, compliance and enforcement challenges persist, particularly in emerging economies (Laeven & Valencia, 2018; Osemeke, 2023; Abu, 2024; Isah et al., 2024; Osi et al., 2024). Consequently, empirical evidence on the impact of audit committee features on financial performance remains inconclusive. While some studies report positive associations, others document weak, mixed, or statistically insignificant effects, particularly in contexts characterised by institutional heterogeneity and varying governance quality (Kyere & Ausloos, 2021). These inconsistencies are partly attributable to differences in methodological design, variable measurement, and econometric approaches across studies (Kyere & Ausloos, 2021; Aguilera et al., 2008).

A further limitation of existing research is its focus on non-financial firms and broad corporate governance frameworks, which limits the relevance of the findings to the banking industry (Nguyen et al., 2022; Adams & Mehran, 2012; Holt, 2021; Hopt, 2021; Laeven & Levine, 2009). Deposit money banks operate under stricter prudential regulations, higher leverage, and greater systemic risk, yet research specific to this sector remains scarce (Adams & Mehran, 2012; Holt, 2021; Hopt, 2021; Laeven & Levine, 2009; Ofori-Sasu et al., 2023; Nguyen et al., 2022). Moreover, studies of African banking systems show that audit committee research tends to emphasise general governance indicators rather than bank-specific governance mechanisms (Shika & Kantiyok, 2023; Abu, 2024; Isah et al., 2024; Osi et al., 2024).

Theoretically, much of the existing literature is grounded in Agency Theory, which conceptualises audit committees as mechanisms for reducing information asymmetry and mitigating managerial opportunism (Jensen & Meckling, 1976). While this perspective remains foundational, it is increasingly considered insufficient to fully explain audit committee effectiveness in complex institutional environments. Emerging scholarship highlights that audit committees also perform advisory, resource, and institutional roles that extend beyond pure monitoring functions (Pfeffer & Salancik, 1978; Hillman & Dalziel, 2003; DiMaggio & Powell, 1983; Bédard & Gendron, 2010). Recent literature increasingly supports broader governance perspectives such as Stewardship Theory and institutional governance models, which better capture trust-based, collaborative, and context-sensitive governance processes (Davis et al., 1997; DiMaggio & Powell, 1983; Aguilera et al., 2008; Donaldson & Davis, 1991; Pfeffer & Salancik, 1978).

This study examines the relationship between audit committee traits and the financial performance of deposit money banks in Nigeria. It focuses on audit committee size,

independence, meeting frequency, and financial expertise as determinants of effectiveness (DeZoort et al., 2002; Bédard & Gendron, 2010; Fariha et al., 2021). Financial performance is assessed using Return on Assets (ROA) and Return on Equity (ROE), widely used accounting metrics for evaluating bank profitability and performance (Athanasoglou et al., 2008; Laing & Dunbar, 2015; Kyere & Ausloos, 2021). By concentrating on deposit money banks, the research provides sector-specific insights from a highly regulated industry (Nguyen et al., 2022; Laeven & Valencia, 2018).

Furthermore, this research advances the literature by integrating Banking Governance Theory, Stewardship Theory, and Agency Theory to provide a more comprehensive understanding of audit committee effectiveness in emerging banking sectors. This integrative approach recognises that governance outcomes are shaped not solely by monitoring and control mechanisms but also by factors such as trust, the institutional environment, and regulatory enforcement (Davis et al., 1997; DiMaggio & Powell, 1983; Abu, 2024; Isah et al., 2024; Osi et al., 2024). The subsequent sections of this study are organised as follows: a review of pertinent literature, followed by the methodology, results, and concluding remarks.

2.0 Literature Review

Corporate governance and financial performance remain central focus areas in modern accounting and banking research because of their essential roles in maintaining organisational stability and building investor trust (La Porta et al., 2000; Shleifer & Vishny, 1997; Zattoni et al., 2021). These issues are also critical to the resilience of financial systems, particularly in the banking sector, where governance lapses can trigger widespread systemic problems (Levine, 2005; Laeven & Valencia, 2018; Aldamen et al., 2020). In governance frameworks, audit committees are vital for enhancing the quality of financial reporting, strengthening internal controls, increasing accountability, and supporting effective organisational decision-making (Fama & Jensen, 1983; DeFond & Jiambalvo, 1991; Klein, 2002; Abbott et al., 2004; Fariha et al., 2021). While traditionally seen mainly as monitoring bodies, audit committees are increasingly viewed in current governance research as broader governance entities with responsibilities that extend beyond oversight (DeZoort et al., 2002; Bédard & Gendron, 2010).

From a stewardship perspective, audit committees also promote governance processes centred on trust, accountability, collaboration, and long-term value creation (Donaldson & Davis, 1991; Davis et al., 1997; Al-Shaer & Zaman, 2018; García-Sánchez et al., 2023; Raimo et al., 2021). Audit committees are particularly important in the banking industry (Nguyen et al., 2022; Nguyen et al., 2022). This is because deposit-taking banks operate in highly regulated, sensitive environments marked by systemic interconnections and rigorous supervisory oversight (Laeven & Levine, 2009; Aldamen et al., 2020). According to Banking Governance Theory, governance mechanisms in banking institutions extend beyond internal efficiency considerations (Laeven & Levine, 2009; Beck et al., 2010).

In banking research, financial performance is typically assessed using accounting-based metrics (Athanasoglou et al., 2008; Agyei-Mensah, 2022). The most commonly used indicators are Return on Assets (ROA) and Return on Equity (ROE) (Nguyen et al., 2022; Kyere & Ausloos, 2021). These measures reflect profitability, operational efficiency, and managerial effectiveness in banking institutions (Athanasoglou et al., 2008; Agyei-Mensah, 2022). This study examines

how audit committee attributes serve as vital governance tools that influence the financial performance of banking institutions (Klein, 2002; DeZoort et al., 2002; García-Sánchez et al., 2023; Raimo et al., 2021). These attributes include independence, size, financial expertise, and meeting frequency (Bédard et al., 2004; Sharma et al., 2009; Fariha et al., 2021). Their effect operates by enhancing oversight quality, governance effectiveness, and institutional efficiency (Abbott et al., 2004; García-Sánchez et al., 2023; Raimo et al., 2021). Consequently, the following sections analyse the conceptual foundations of these attributes and their association with the financial performance of deposit money banks.

Conceptual Foundations

Audit committee size is the number of individuals serving on the committee (DeZoort et al., 2002; Bédard et al., 2004). Existing literature suggests that governance effectiveness is often enhanced when committees maintain a moderate size that balances expertise diversity with efficient deliberation and timely decision-making (Klein, 2002; García-Sánchez et al., 2023; Raimo et al., 2021). An appropriate committee size broadens perspectives and supports informed financial oversight. From a Stewardship Theory perspective, committee size affects not only monitoring capacity but also collaborative governance, which enhances organisational value creation (Donaldson & Davis, 1991; Davis et al., 1997; García-Sánchez et al., 2023; Raimo et al., 2021).

The independence of the audit committee is often measured by the proportion of non-executive or independent directors on the committee (Klein, 2002; Abbott et al., 2004; DeZoort et al., 2002). Independence remains a fundamental principle of governance, enhancing objectivity in financial oversight and strengthening the integrity of financial reporting (Carcello & Neal, 2003; Bédard et al., 2004). Although Agency Theory frames independence primarily as a means of reducing conflicts of interest and limiting managerial influence (Jensen & Meckling, 1976; Fama & Jensen, 1983), broader governance perspectives suggest that independence also enhances professional judgement and institutional accountability (Bédard et al., 2004; García-Sánchez et al., 2023; Raimo et al., 2021). From a Stewardship Theory perspective, independent committee members contribute through ethical conduct, trust-based oversight, and a commitment to long-term organisational sustainability, rather than solely through monitoring behaviour (Donaldson & Davis, 1991; Al-Shaer & Zaman, 2018; García-Sánchez et al., 2023; Raimo et al., 2021).

The frequency of audit committee meetings reflects the level of engagement, diligence, and dedication in performing governance duties (Vafeas, 1999; Bazhair, 2022; DeZoort et al., 2002; Sharma, Naiker, & Lee, 2009). It is often used as an indicator of governance responsiveness and committee activity in the corporate governance literature (DeZoort et al., 2002; Bédard et al., 2004). Regular meetings support effective oversight by enabling timely evaluation of financial reports, audit outcomes, internal control systems, and emerging risks (Abbott et al., 2004; Carcello et al., 2002; García-Sánchez et al., 2023; Raimo et al., 2021). From a Stewardship perspective, meeting frequency signals proactive engagement and collective responsibility rather than merely intensified monitoring. Within Banking Governance Theory, regular committee interaction is especially important because banking institutions operate under continuous regulatory supervision and face heightened exposure to financial and operational risks. Consequently, meeting frequency captures both governance intensity and institutional responsiveness.

Financial expertise encompasses the accounting, auditing, and financial skills of audit committee members (DeZoort et al., 2002; Bédard et al., 2004; Abbott et al., 2004). This trait is often assessed by the proportion of members who hold professional credentials, demonstrate financial literacy, or have relevant industry experience (DeZoort et al., 2002; Bédard et al., 2004; García-Sánchez et al., 2023; Raimo et al., 2021). Such expertise enhances the committee's capacity to analyse financial statements, detect reporting irregularities, evaluate risk, and ensure adherence to accounting and regulatory standards (DeZoort et al., 2002; Bédard et al., 2004; Abbott et al., 2004; Velte, 2023). From a Stewardship Theory standpoint, committee members with financial knowledge serve not only as monitors but also as trusted stewards who provide informed judgment, bolster institutional decision-making, and promote long-term organisational value (Donaldson & Davis, 1991; Davis et al., 1997; Al-Shaer & Zaman, 2018; García-Sánchez et al., 2023; Raimo et al., 2021). In the banking sector, financial expertise is particularly vital because of operational complexity, strict prudential regulation, and elevated standards for financial reporting quality and governance (Laeven & Levine, 2009; Beck et al., 2010; Aldamen et al., 2020); ((Adams & Mehran, 2012; Holt, 2021).

Theoretical Framework

This study employs three theoretical frameworks to examine how audit committee characteristics affect the financial performance of deposit money banks in Nigeria (Laeven & Levine, 2009; Donaldson & Davis, 1991; Jensen & Meckling, 1976; Aldamen et al., 2020; García-Sánchez et al., 2023; Raimo et al., 2021). The combination of Banking Governance Theory and Stewardship Theory, with additional insights from Agency Theory, provides a comprehensive framework for explaining how audit committees enhance governance effectiveness in a highly regulated banking sector (Laeven & Levine, 2009; Davis et al., 1997; Adams & Mehran, 2021; García-Sánchez et al., 2023; Raimo et al., 2021). Stewardship Theory suggests that managers and directors are naturally motivated to act in the best interests of the organisation (Donaldson & Davis, 1991; Davis et al., 1997). It highlights the importance of creating shared value rather than engaging in opportunistic behaviour or facing agency conflicts (Donaldson & Davis, 1991; Davis et al., 1997). From this viewpoint, governance structures serve as supportive systems that promote trust, collaboration, and commitment, rather than just as controlling mechanisms (Davis et al., 1997; García-Sánchez et al., 2023; Raimo et al., 2021). For audit committees, stewardship is demonstrated through active engagement, diligence, and a commitment to financial accuracy and high-quality reporting (Bédard et al., 2004; Al-Shaer & Zaman, 2018). Recent studies show that governance frameworks grounded in expertise and trust improve financial reporting quality (Al-Shaer & Zaman, 2018; García-Sánchez et al., 2023; Raimo et al., 2021). They also enhance organisational performance by strengthening decision-making and governance effectiveness (Bédard et al., 2004; Kyere & Ausloos, 2021; García-Sánchez et al., 2023; Raimo et al., 2021).

Within banks, audit committees function as both oversight and advisory bodies. They strengthen internal controls and guide managerial decision-making processes (Adams & Mehran, 2012; Holt, 2021; Hopt, 2021). Audit committee characteristics such as size, independence, financial expertise, and meeting frequency influence the effectiveness of monitoring and the quality of financial oversight and strategic governance (Bédard et al., 2004; Agyei-Mensah, 2022). From a stewardship perspective, these attributes encourage productive interactions among management, internal auditors, and external auditors. This collaboration enhances risk management,

accountability, and long-term financial stability within banking institutions (Nguyen et al., 2022; Laeven & Levine, 2009). Banking Governance Theory emphasises that the effectiveness of the audit committee depends on the institutional and regulatory environment in which financial institutions operate (Laeven & Levine, 2009; Adams & Mehran, 2012; Holt, 2021). Unlike non-financial firms, banks operate with high leverage and play a crucial role in financial intermediation (Beck et al., 2010). They are also essential to systemic financial stability, as problems at a single institution can threaten the entire financial system (Laeven & Valencia, 2018; Aldamen et al., 2020). Therefore, banks require more comprehensive governance frameworks to maintain stability, ensure prudential compliance, and support effective risk management (Adams & Mehran, 2012; Holt, 2021; Laeven & Levine, 2009).

In this context, audit committees serve as vital intermediaries between internal governance and external regulatory standards, thereby enhancing transparency, ensuring compliance, and protecting the integrity of financial reporting (DeZoort et al., 2002; Bédard et al., 2004; García-Sánchez et al., 2023; Raimo et al., 2021). The independence and financial expertise of audit committee members enhance the credibility of financial reports and facilitate compliance with regulatory and prudential standards (DeZoort et al., 2002; Bédard et al., 2004; Abbott et al., 2004). Research in banking indicates that robust governance frameworks contribute to higher-quality financial reporting and mitigate systemic risk, particularly within emerging markets (García-Sánchez et al., 2023; Aldamen et al., 2020; Laeven & Valencia, 2018).

While Stewardship Theory and Banking Governance Theory provide the primary explanatory foundations, Agency Theory offers a complementary perspective by focusing on residual conflicts of interest stemming from information asymmetry between managers and stakeholders (Jensen & Meckling, 1976; Fama & Jensen, 1983). From this perspective, audit committees serve as oversight mechanisms that mitigate opportunistic behaviour through independent monitoring and enhanced financial disclosure (Klein, 2002; Abbott et al., 2004; DeZoort et al., 2002). Audit committee characteristics, such as independence, meeting frequency, and financial expertise, strengthen accountability and reduce information asymmetry within corporate governance systems (Bédard et al., 2004; García-Sánchez et al., 2023; Fariha et al., 2021).

Overall, integrating Banking Governance Theory, Stewardship Theory, and Agency Theory provides a comprehensive framework for understanding audit committee effectiveness in deposit money banks. Banking Governance Theory captures the regulatory and systemic environment in which banking institutions operate, while Stewardship Theory explains collaborative, trust-based governance behaviour (Laeven & Levine, 2009; Donaldson & Davis, 1991); (Adams & Mehran, 2012; Holt, 2021). Agency Theory, in turn, accounts for residual monitoring and control mechanisms arising from information asymmetry between managers and stakeholders (Jensen & Meckling, 1976; Fama & Jensen, 1983). Together, these perspectives offer a robust theoretical foundation for analysing how audit committee characteristics influence financial performance in Nigeria's banking sector (Aldamen et al., 2020; García-Sánchez et al., 2023; Raimo et al., 2021).

Empirical Evidence

Empirical research on the relationship between audit committee characteristics and financial performance reports mixed and context-dependent findings (Kyere & Ausloos, 2021; Fariha et al., 2021; Bazhair, 2022). Existing studies generally indicate that audit committee composition

and structure influence financial performance through their effects on governance quality, reporting reliability, and oversight effectiveness (DeZoort et al., 2002; Bédard & Gendron, 2010; García-Sánchez et al., 2023; Raimo et al., 2021). Banking Governance Theory suggests that these relationships do not operate uniformly across institutional settings. In banking institutions, governance outcomes are shaped by regulatory intensity, prudential supervision, and systemic risk considerations (Laeven & Levine, 2009; Srivastav & Hagendorff, 2016); (Adams & Mehran, 2012; Holt, 2021; Aldamen et al., 2020). From a Stewardship Theory perspective, the effectiveness of an audit committee depends not only on formal governance structures but also on members' professional dedication and internal motivation to serve the organisation's long-term goals (Donaldson & Davis, 1991; Davis et al., 1997). Stewardship Theory suggests that governance outcomes improve when directors and committee members pursue organisational objectives through responsible, cooperative actions rather than relying solely on control mechanisms (Davis et al., 1997; Donaldson & Davis, 1991).

Agency Theory remains relevant for explaining residual governance conflicts arising from information asymmetry between management and oversight bodies (Jensen & Meckling, 1976; Fama & Jensen, 1983). However, in regulated banking environments, its explanatory power is reduced because external supervision and institutional governance mechanisms already impose substantial governance discipline (Laeven & Levine, 2009; Adams & Mehran, 2012; Holt, 2021; Hopt, 2021; Aldamen et al., 2020).

Empirical evidence on the relationship between audit committee size and financial performance remains inconclusive across contexts (Kyere & Ausloos, 2021; Fariha et al., 2021; Bazhair, 2022). Some studies suggest that moderately sized audit committees strengthen oversight by improving the quality of deliberation, expanding expertise, and enhancing financial review processes (DeZoort et al., 2002; Abbott et al., 2004; Bédard & Gendron, 2010). Stewardship Theory interprets these benefits as both structural and behavioural, arguing that collaborative decision-making reflects shared responsibility and a commitment to long-term organisational value (Donaldson & Davis, 1991; Davis et al., 1997; Al-Shaer & Zaman, 2018). Large committees can hinder governance through coordination issues, slower decision-making, and reduced accountability (Bédard & Gendron, 2010; García-Sánchez et al., 2023; Raimo et al., 2021). In regulated banking, these inefficiencies can be worse due to the need for quick responses and compliance (Laeven & Levine, 2009; Adams & Mehran, 2012; Holt, 2021; Aldamen et al., 2020).

Agency Theory suggests larger committees may weaken monitoring by dispersing responsibility (Jensen & Meckling, 1976; Fama & Jensen, 1983; Klein, 2002). However, in banking, regulatory and supervisory mechanisms offer substantial governance discipline (Srivastav & Hagendorff, 2016; Adams & Mehran, 2012; Holt, 2021). Evidence from emerging markets like Nigeria shows weak or insignificant links between audit committee size and financial performance (Bédard et al., 2004; Agyei-Mensah, 2022; Raimo et al., 2021; Bazhair, 2022; Tijani et al., 2025). These findings suggest that structural attributes alone are insufficient; effectiveness also relies on governance, institutional support, and implementation (García-Sánchez et al., 2023; Aldamen et al., 2020).

Empirical evidence on the frequency of audit committee meetings remains inconclusive and varies by context (Kyere & Ausloos, 2021; Fariha et al., 2021; Bazhair, 2022). Some research

indicates that more frequent meetings enhance oversight by enabling prompt review of financial reports, internal control systems, and emerging governance issues (Alhababsah & Yekini, 2021; DeZoort et al., 2002; Sharma et al., 2009). From a Banking Governance Theory perspective, frequent meetings may signal the importance of ongoing monitoring to address regulatory oversight, prudential standards, and systemic risk levels within banking institutions (Laeven & Levine, 2009; Srivastav & Hagedorff, 2016; Adams & Mehran, 2012; Holt, 2021; Aldamen et al., 2020). Stewardship Theory holds that meeting frequency reflects active involvement, a sense of professional duty, and commitment to institutional objectives, rather than mere adherence to regulations (Donaldson & Davis, 1991; Davis et al., 1997; Al-Shaer & Zaman, 2018). However, other evidence suggests that excessive meetings may reflect governance pressures, coordination problems, or reactive oversight rather than lead to better financial results (Vafeas, 1999; Bazhair, 2022; Lassoued, 2022). Evidence from Nigerian Deposit Money Banks shows inconsistent results, indicating that meeting frequency alone does not ensure improved financial performance (Kurawa & Shuaibu, 2022; Agada & Lazarus, 2024). These findings indicate that the effectiveness of an audit committee depends more on the quality of its engagement and the institutional setting than on how often it meets (García-Sánchez et al., 2023; Adams & Mehran, 2012; Holt, 2021; Aldamen et al., 2020).

Audit committee independence is considered a crucial governance tool for improving transparency and limiting managerial control over financial reporting (Jensen & Meckling, 1976; Fama & Jensen, 1983). This view is rooted in Agency Theory, highlighting the importance of independent supervision in reducing conflicts of interest between management and stakeholders (Jensen & Meckling, 1976; Fama & Jensen, 1983). Banking Governance Theory states that independence should be viewed within the framework of robust regulatory supervision in banks, which already limits managerial freedom (Adams & Mehran, 2012; Holt, 2021; Laeven & Levine, 2009). Evidence from studies shows that an independent audit committee often enhances the quality of financial reporting, but its impact on financial performance remains uncertain (García-Sánchez et al., 2023; Fariha et al., 2021).

From a Stewardship Theory perspective, independence alone does not guarantee effectiveness. Instead, effectiveness also relies on members' ethical orientation, professional judgment, and dedication to organisational stewardship (Donaldson & Davis, 1991; Davis et al., 1997; Al-Shaer & Zaman, 2018). In emerging markets such as Africa and Nigeria, studies show that factors such as institutional quality, enforcement strength, and ownership structures significantly influence the effectiveness of audit committee independence (Maniru & Ezra, 2023; Ashiru et al., 2024). Overall, audit committee independence should be viewed as a governance feature that depends on context, rather than as an isolated factor directly affecting financial performance.

Possessing financial expertise on audit committees is consistently associated with enhanced financial reporting quality, more robust internal controls, and reduced information asymmetry (Bédard & Gendron, 2010; García-Sánchez et al., 2023). This is because committee members with financial literacy are better positioned to interpret complex financial statements, detect irregularities, and precisely assess risk exposure (Bédard & Gendron, 2010; DeZoort et al., 2002). From a Stewardship Theory perspective, members act as capable stewards, contributing value to the organisation through informed decision-making and professional oversight rather than mere supervision (Donaldson & Davis, 1991; Davis et al., 1997; Al-Shaer & Zaman, 2018).

In Banking Governance Theory, possessing financial expertise is especially vital due to the complexities of banking, high-risk exposure, and stringent regulatory requirements (Laeven & Levine, 2009; Aldamen et al., 2020; Adams & Mehran, 2012; Holt, 2021). Nonetheless, empirical evidence indicates that financial expertise does not invariably improve financial results in emerging economies, primarily due to institutional constraints and inadequate enforcement mechanisms (Fariha et al., 2021; Raimo et al., 2021; Bazhair, 2022; Agyei-Mensah, 2022).

Agency Theory proposes that financial expertise enhances monitoring by reducing information asymmetry between management and oversight entities (Jensen & Meckling, 1976; Fama & Jensen, 1983). Nevertheless, within banking systems, this influence is frequently moderated by regulatory frameworks and institutional quality, which often constrain its direct impact on financial outcomes (Adams & Mehran, 2012; Holt, 2021; Aldamen et al., 2020).

Research Gap

Overall, empirical evidence indicates that audit committee traits affect financial reporting quality and, in some cases, financial performance (Kyerem & Ausloos, 2021; Fariha et al., 2021; García-Sánchez et al., 2023; Raimo et al., 2021). However, these impacts depend heavily on institutional, regulatory, and behavioural factors within the governance setting.

Banking Governance Theory accounts for these differences by examining regulatory strength, prudential oversight, and systemic risk across banking systems (Laeven & Levine, 2009; Adams & Mehran, 2012; Holt, 2021; Aldamen et al., 2020). Stewardship Theory further contributes by highlighting the importance of trust, professionalism, and intrinsic motivation in effective governance (Donaldson & Davis, 1991; Davis et al., 1997; Al-Shaer & Zaman, 2018).

While Agency Theory remains relevant, it primarily helps explain residual monitoring issues arising from asymmetric information between managers and oversight authorities (Jensen & Meckling, 1976; Fama & Jensen, 1983). However, its explanatory power is limited in highly regulated banking settings, where external supervision already enforces strict governance discipline (Laeven & Levine, 2009; Adams & Mehran, 2012; Holt, 2021).

Despite a substantial body of research, a gap remains in understanding how these governance mechanisms operate together within Nigerian deposit money banks. This gap is particularly important given the interplay of regulatory constraints, institutional weaknesses, and compliance-driven governance structures in the Nigerian banking sector (Aldamen et al., 2020; Ashiru et al., 2024). Therefore, a context-specific empirical investigation of audit committee characteristics and financial performance is warranted.

Hypotheses Development

This study integrates theoretical perspectives to conceptualise audit committee characteristics across two interconnected dimensions. Monitoring intensity is captured by committee size and meeting frequency. This highlights the committee's structural capacity to oversee management and enhance accountability (DeZoort et al., 2002; Bédard & Gendron, 2010). Governance capability summarises the committee's independence and financial expertise. This captures the quality of judgement, professionalism, and ethical orientation required for effective oversight (Abbott et al., 2004; García-Sánchez et al., 2023; Raimo et al., 2021). Monitoring intensity aligns more closely with Agency Theory and Banking Governance Theory, both of which emphasise

formal control mechanisms, regulatory oversight, and risk management in banking institutions (Jensen & Meckling, 1976; Laeven & Levine, 2009; Adams & Mehran, 2012; Holt, 2021; Hopt, 2021).

In contrast, governance capability is more closely associated with Stewardship Theory, as it reflects competence, trust, and an intrinsic commitment to organisational value creation (Donaldson & Davis, 1991; Davis et al., 1997; Al-Shaer & Zaman, 2018). Together, these dimensions provide a comprehensive framework for explaining how audit committee characteristics affect financial performance in deposit money banks. Drawing on this integrated theoretical framework and empirical evidence, the following hypotheses are proposed:

H₀: Audit committee attributes have no significant effect on the financial performance of Nigerian deposit money banks.

H₁: Audit committee attributes have a significant effect on the financial performance of Nigerian deposit money banks.

3.0 Methodology

For its estimation, this study employed Fixed Effects (FE) and Random Effects (RE) estimation techniques. The FE model addresses this concern by allowing each firm to possess its own intercept, thereby controlling for all time-invariant characteristics unique to each cross-sectional unit (Wooldridge, 2010). Similarly, although the Random Effects (RE) model accounts for individual heterogeneity, it assumes that the unobserved firm-specific effects are uncorrelated with the explanatory variables. However, Pooled OLS estimates were presented as a robustness check, even though the technique is oversimplified and does not account for heterogeneity. The Hausman test was carried out to determine the appropriate model (Baltagi, 2008; Hausman, 1978; Wooldridge, 2010). Due to data limitations, 12 sample firms were included in this study, covering the period 2015 to 2024. Focusing on listed DMBs is appropriate because these institutions are required to comply with corporate governance regulations established by regulatory agencies. (Buallay et al., 2021; Ntim et al., 2013; Buerthey, 2021).

Data were collected from secondary sources, including audited annual reports and financial statements, which are generally regarded as reliable sources of governance and financial information in empirical accounting and corporate governance research (Alodat et al., 2021; Al-Matari, 2022). Information on audit committee characteristics was obtained from annual reports, while financial performance indicators and control variables were sourced from financial statements. The financial performance (FP) variable was measured using two widely used accounting measures: Return on Assets (ROA; Net Profit divided by Total Assets) and Return on Equity (ROE; Net Profit divided by Shareholders' Equity). These metrics demonstrate how efficiently banks utilise their assets and equity to produce profits. The research focuses on two main aspects of audit committee effectiveness.

Monitoring Intensity variables include Audit Committee Size (AUDES) (the total number of members on the audit committee) and Audit Committee Meetings (NADM) (the number of meetings held in a financial year), which are expected to improve oversight and monitoring of financial reporting processes. Competence and Independence include Audit Committee Independence (NNDA), measured by the proportion of independent directors serving on the

audit committee, and Audit Committee Financial Expertise (NFED), measured by the proportion of committee members with accounting, auditing, or financial management expertise. These variables reflect the committee's ability to scrutinise financial reporting and internal control systems effectively.

To test the hypotheses, regression models were estimated to examine the competence and independence of audit committee attributes in relation to financial performance.

$$FP_{it} = \beta_0 + \beta_1 AU DS_{it} + \beta_2 NADM_{it} + \beta_3 NNDA_{it} + \beta_4 NFED_{it} + \varepsilon_{it}$$

Where:

FP_{it} = financial performance of bank i in year t (ROA and ROE)

$AU DS_{it}$ = audit committee size

$NADM_{it}$ = audit committee meeting frequency

$NNDA_{it}$ = audit committee independence

$NFED_{it}$ = audit committee financial expertise

ε_{it} = error term

Variable Definitions and Measurements

S/N	Variables	Definitions/Measurements	Expected Signs
1	Return on Assets	Profit after tax/Total Assets	
2	Return on Equity	Profit after tax /Total Shareholders' Equity	
3	Auditors Size	Number of Internal Auditors	Positive (+)
4	Number of Non-Director Auditors	Number of Non-Directors Auditors	Positive (+)
5	Number of Finance Expertise Disclosed	Number or proportion of members with accounting or finance qualifications disclosed	Positive (+)
6	Number of Auditors Meeting	Number of Board meetings in a year	Positive (+)

Source: Author's Computation

4.0 Results and Discussion

Table 1 presents the descriptive statistics of the variables. Starting with Return on Assets (ROA), the mean of 81% indicates that, on average, firms generate modest profitability relative to their total assets. The standard deviation of 29 reflects moderate variability, meaning some firms perform significantly better or worse than the average. The range from 18% to 6.8% underscores this heterogeneity, with some firms achieving very low or relatively high returns. Conversely, Return on Equity (ROE) shows a higher mean of 39%, suggesting that firms tend to generate more profit relative to shareholders' equity. The variability here is considerably larger, with a standard deviation of 71 and a wide range from 2.1% to 53%. This indicates that while some firms are highly profitable for shareholders, others perform less well, reflecting diverse levels of financial performance.

Turning to governance and audit-related variables, auditor size (AUDS) has a mean of 58 and a standard deviation of 495, indicating that most firms engage auditors of similar size and

suggesting a relatively uniform audit environment across the sample. The variables related to governance and expertise, such as non-director auditors (NNDA), average around 3 with limited variability, implying that most firms have a similar number of non-director auditors. The disclosure of finance experts (NFED) varies substantially, with some firms disclosing none and others disclosing up to 7, reflecting differences in governance transparency or emphasis on financial expertise. Lastly, the number of auditor meetings (NADM) averages approximately 4, indicating regular engagement between firms and auditors and suggesting active oversight. Overall, the data reveal that while aspects like auditor size are relatively consistent, profitability variables and governance disclosures exhibit significant variability, highlighting the diverse practices and performance levels within the sample. This variability is crucial for understanding the potential relationships and influences among these variables within the study context.

Table 1:
Descriptive Statistics

Variable	Observation	Mean	Std. Dev.	Min	Max
Return on Assets	120	1.8087	1.2883	0.1800	6.800
Return on Equity	120	15.3862	8.7106	2.1000	37.5300
Auditor's size	120	5.5833	0.4950	5.0000	6.0000
No. Non-director Auditor	120	2.9583	0.8341	2.0000	4.0000
No. Finance Expert Disclosed	120	1.9750	1.4404	0.0000	7.0000
Number of Auditor's Meetings	120	4.2416	1.1449	0.0000	7.0000

Source: Authors' Computation.

Correlation Matrix

The correlation matrix in Table 2 presents the overall strength and direction of the relationships between audit committee characteristics and the financial performance variables. The most prominent finding is the very high correlation between ROA and ROE, at 0.8656. This is expected because both metrics are profitability indicators: ROA measures return relative to assets, and ROE relative to shareholders' equity. Their strong correlation suggests that firms that perform well on asset efficiency tend to generate higher returns for shareholders, aligning with financial theory. However, the two metrics were not used in the same model; rather, they served as a robustness check for each other.

Furthermore, the correlation between auditor size (AUDS) and ROE is weak and negative at -0.3462. This indicates that large-sized auditors might be associated with lower firm profitability, possibly due to more rigorous oversight or conservative audit practices that could limit aggressive earnings management or risk-taking behaviour. The negative correlation, while moderate, reinforces the idea that large-sized auditors might influence firm performance in a consistent direction.

Similarly, the number of finance experts disclosed (NFED) is weak and negatively correlated with both ROA (-0.3348) and ROE (-0.2709). This suggests that firms disclosing more financial experts tend to have lower profitability metrics. This may imply that firms with more complex or potentially riskier financial structures are more likely to disclose such expertise, which might be associated with higher costs or more conservative financial strategies that reduce short-term

profitability. Generally, the correlation matrix suggests low correlation and the absence of multicollinearity among the independent variables; thus, the variables can be used together in the same model.

Table 2:
Correlation Matrix

Variable	ROA	ROE	AUDS	NNDA	NFED	NADM
Return on Assets (ROA)	1.0000					
Return on Equity (ROE)	0.8656	1.0000				
Auditor’s size (AUDS)	-0.0878	-0.3462	1.0000			
No. Non-director Auditor (NNDA)	0.0686	0.1090	-0.0831	1.0000		
No. Finance Expert Disclosed (NFED)	-0.3348	-0.2709	0.0560	-0.0708	1.0000	
No. of Auditor’s Meeting (NADM)	-0.1772	-0.1408	-0.1025	-0.0246	-0.0778	1.0000

Source:Authors’ Computation.

Impact of Audit Committee Characteristics on the Financial Performance

The results presented in Tables 3 and 4 provide a detailed look at how various governance and audit-related variables influence firm performance, specifically ROA and ROE. Both tables compare three different econometric models: Pooled OLS, Fixed Effects (FE), and Random Effects (RE). According to Table 3, the number of auditor meetings (NADM) is negatively associated with ROA at the 5% significance level, contrary to the a priori expectation. More frequent meetings might indicate high scrutiny, which could hinder profitability in the short term. It might also suggest that firms experiencing difficulties are engaging more with auditors to address concerns, which could impact profitability. This study supports Abdullahi (2024), who found a negative effect of auditors' meetings on Return on Assets (ROA). In addition, studies by Laeven & Levine (2009) and Adams & Mehran (2012) established that the banking governance framework is driven by compliance, leading to meetings that merely satisfy legal obligations rather than improve efficiency.

Similarly, the number of finance experts disclosed (NFED) consistently exhibits a negative and statistically significant relationship with ROA at the 1% level. This suggests that firms disclosing more financial experts tend to have lower ROA. This implies that firms with more finance experts may adopt more conservative and effective strategies, potentially reducing short-term profitability or increasing costs. These findings refute the findings of Ojeka et al. (2014) and Odoemelam et al. (2023), who reported that financial expertise improves ROA and ROE in Nigerian banks. However, the findings support the stewardship theory that financially knowledgeable audit committee members collaborate more effectively with management, thereby enhancing decision-making and performance.

The coefficient on auditor size is negative, while the coefficient on the number of non-director auditors is positive; however, neither variable is significant in any model. The models showed low R-squared values (0.16-0.19), indicating that other factors outside the model explain some of the variation in ROA. The significant F-statistics confirm that the models are statistically valid overall. However, the low R-squared suggests that other unobserved factors, such as market conditions, management quality, or industry effects, are also influential.

Table 3:
Dependent Variable: Return on Asset (ROA)

Variables	Pooled OLS	Fixed Effect	Random Effect
Auditor's size	-0.2280 (0.2242)	-0.7825 (0.9146)	-0.2497 (0.2844)
No. Non-director Auditor	0.0490 (0.1326)	0.0461 (0.1352)	0.0478 (0.1315)
No. Finance Expert Disclosed	-0.3077***(0.0768)	-0.3473***(0.0781)	-0.3234***(0.0761)
No. of Auditor's Meeting	-0.2387**(0.0968)	-0.2449**(0.0960)	-0.2425**(0.0949)
Constant	4.5576***(1.4577)	7.7668 (5.1479)	4.7295***(1.7527)
Observation	120	120	120
No. of Group	10	10	10
R-square	0.1627	0.1951	0.1925
F statistic	5.59	6.42	24.34
Prob.	0.0004	0.0001	0.0001

Source: Authors' Computation.

Table 4 revealed that Auditor size (AUDS) is significant only in the RE model, where it is negatively related to ROE at the 5% level. This suggests that larger auditors may be associated with lower equity returns, possibly because they enforce stricter oversight, limiting aggressive earnings management or risky strategies that could boost ROE. Auditor meetings (NADM) also negatively impact ROE at the 5% level, aligning with the ROA results. Frequent meetings could indicate increased oversight or internal issues, which might suppress short-term earnings growth. The findings in Table 4 regarding finance experts (NFED) again demonstrate a strong negative and significant relationship with ROE across all models at the 1% level. This reinforces the notion that greater disclosure of financial expertise correlates with lower profitability, possibly for the same reasons discussed earlier.

Consistent with the ROA findings, the coefficient on the number of non-director auditors is positive but not significant across all models. This suggests that the presence of non-director auditors may spur banking performance if their participation increases. The low R-squared values (0.18–0.23) remain, indicating that much of the variation in ROE is unexplained by these variables alone. The models are statistically significant overall, as evidenced by the Wald and F-statistics with p-values of 0.0000, confirming that the included variables collectively have a meaningful impact. Generally, the consistent negative relationships between governance variables, particularly the disclosure of auditor size and the frequency of auditor meetings, and both profitability measures suggest that increased governance rigour might come at the expense of short-term profitability.

In summary, the null hypothesis of this study that audit committee attributes have no significant effect on the financial performance of Nigerian deposit money banks cannot be rejected, as the number of auditors, meetings, and financial expert disclosure have a significant influence on financial performance.

Table 4:
Dependent Variable: Return on Equity (ROE)

Variables	Pooled OLS	Fixed Effect	Random Effect
Auditor's size	-0.1026*** (1.4588)	-2.3235 (5.5621)	-5.5224** (2.4513)
No. Non-director Auditor	0.5931 (0.8628)	0.5580 (0.8222)	0.5702 (0.8107)
No. Finance Expert Disclosed	-1.5884***(0.4997)	-1.9348***(0.4753)	-1.8546***(0.4685)
No. of Auditor's Meeting	-1.4867** (0.6300)	-1.6034*** (5841)	-1.5597*** (5795)
Constant	57.1479*** (9.4829)	37.3314 (31.3046)	54.8120*** (14.4395)
Observation	120	120	120
No. of Group	-	10	10
R-square	0.2250	0.1829	0.1801
F statistic/Wald	8.34	5.93	27.51
Prob.	0.0000	0.0002	0.0000

Note: Standard errors in parentheses, ***, **, and * represents 1%, 5% and 10% level of significance

Source: Authors' Computation, 2026.

Hausman Test

The Hausman test is a statistical procedure used to determine whether the Fixed Effects (FE) or Random Effects (RE) model is more appropriate for panel data analysis. It essentially tests whether the unique errors (firm-specific effects) are correlated with the regressors. If they are correlated, the FE model is preferred because it provides consistent estimates. If not, the RE model is more efficient and thus preferable. In this case, the Chi-squared statistic is 1.92 with a p-value of 0.7501. Since the p-value is relatively high (greater than the standard significance level of 0.05), the study cannot reject the null hypothesis, indicating no significant difference between the FE and RE estimates; therefore, the RE model is more appropriate because it is more efficient. Choosing the RE model means that the analysis assumes the unobserved individual effects are uncorrelated with the regressors, allowing us to use more efficient estimators. This decision impacts the interpretation of the regression results, as the RE model will be used for the study.

Table 5:
Hausman Test

Variables	Fixed Effect	Random Effects	Difference	Standard Error
Auditor's size	-0.7825	-0.2497	-0.5328	0.8693
No. Non-director Auditor	0.0461	0.0478	-0.0016	0.3113
No. Finance Expert Disclosed	-0.3473	-0.3234	-0.0238	0.0178
Number of Auditor's Meetings	-0.2449	-0.2425	-0.0024	0.0148
Chi ²	1.92			
Prob.	0.7501			

Source: Authors' Computation, 2026.

5.0 Conclusion and Recommendations

This study investigated the relationship between audit committee characteristics and the financial performance of Nigerian Deposit Money Banks, focusing on committee size, meeting frequency, independence, and financial expertise, with profitability measured by ROA and ROE. Based on the RE model results, the study revealed that while large audit committee size, more frequent meetings, and financial expertise significantly improve oversight and transparency, they are negatively associated with profitability, possibly due to stricter controls, higher compliance costs, and more conservative decision-making. The study recommends that the appointment of financial experts and non-director auditors be strategic to add value. In addition, audit committee meetings must be purposeful rather than excessively frequent, and unique governance practices must be applied to the peculiarities of each bank. Regulatory authorities and policymakers should promote balanced governance practices that enhance transparency and accountability while avoiding unnecessary costs and compliance burdens that could undermine profitability in the Nigerian banking sector.

Limitations of this study include reliance on profitability as the sole performance measure and the exclusion of firms with incomplete disclosures, which warrants caution when generalising results. Future research should explore alternative performance metrics, long-term effects, sector-specific analyses, and qualitative insights from audit committee practices to attain a more comprehensive understanding of governance effectiveness.

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